House
REPUBLICAN
Conference

FloorPrep

Legislative Digest

Thursday, June 26, 1997

John Boehner
Chairman
8th District, Ohio

House Meets at 10:00 a.m. for Legislative Business

Anticipated Floor Action:
H.Con.Res. ___—Adjournment Resolution
H.R. 2014—Taxpayer Relief Act

★ ★ ★

H.Con.Res. ___—Adjournment Resolution

Floor Situation: The House will vote on H.Con.Res ___ as its first order of business today. Yesterday, the Rules Committee granted a rule waiving all points of order against its consideration.

Summary: The resolution waives requirements that Congress complete action on all 13 appropriations measures before July 4, effectively allowing Congress to adjourn for the Independence Day district work period. Under the Constitution, Congress may not adjourn for more than three days without passing an adjournment resolution.

★ ★ ★

H.R. 2014—Taxpayer Relief Act

Floor Situation: The House is scheduled to consider H.R. 2014 after it completes deliberations on the adjournment resolution. Yesterday, as part of the rule for H.R. 2015, the House adopted a modified-closed rule which provides three hours of general debate, equally divided between the chairman and ranking minority member of the Ways & Means Committee. The rule waives all points of order against the bill and its consideration, and self-executes a committee amendment printed in the *Congressional Record*. The rule makes in order a substitute amendment by Mr. Rangel, debatable for one hour equally divided between a proponent and an opponent. Finally, the rule provides one motion to recommit, with or without instructions.

Summary: The Taxpayer Relief Act provides a maximum $500 per-child tax credit for federal income taxes to families who earn up to $75,000 ($110,000 for couples). It provides assistance to families for education expenses, including (1) $1,500 in HOPE scholarship tax credits to offset higher education costs during the first two years of post-secondary study; (2) an annual $10,000 deduction per student for undergraduate expenses paid from earnings in qualified state or private prepaid tuition plans or education investment accounts. The bill also escalates the amount of estate tax relief from $600,000 to $1 million over 10 years, indexing estate tax limits to inflation thereafter, and provides broad-based permanent capital gains relief.

In addition, the bill:

* establishes criminal penalties and civil damages for unauthorized inspection of tax returns, also referred to as tax "browsing;"
* ends or limits techniques that allow tax avoidance through corporate spin-offs;
* ends the ability of credit card companies to defer tax payments on earned interest;
* requires that corporate tax shelters be registered;
* repeals special tax breaks for certain insurance companies and installment sellers;
* provides residents of enterprise zones in the District of Columbia with personal and business tax relief;
* reforms and extends aviation excise taxes; and
* contains numerous provisions to simplify federal tax laws.

The bill was introduced by Mr. Archer and reported by the Ways & Means Committee by a vote of 22-16 on June 13, 1997.

Views (on the overall bill):

Republican Leadership: Supports
Chairman Archer: Supports
Clinton Administration: No Position Available

Amendments: The rule makes in order a substitute amendment by Mr. Rangel, debatable for one hour equally divided between a proponent and an opponent. The Rangel Substitute includes tax cuts estimated to cost $133 billion over five years. Specific provisions of the substitute are outlined below.

The Rangel Substitute

— Education Tax Benefits —

HOPE Scholarship Credits

The substitute calls for 100 percent of tuition costs of the first two years of a student's post-secondary education to be paid for by HOPE Scholarships. Scholarship credit limits for the first two years are gradually increased from $1,100 per year for 1997 through 1999 to $1,200 per year for 2000, and $1,500 per year for 2001 and thereafter. After the first two years of study, HOPE Scholarships will equal 20 percent of tuition costs. The bill also gradually increases the limit on the amount of tuition costs for which the credit is allowable as follows: $4,000 each year for 1997 through 1999;

$5,000 in 2000; $7,500 for 2001; and $10,000 per year for 2002 and subsequent years. In addition, other forms of financial assistance received by a student, such as scholarship awards independent of this measure, will offset the amount of tuition costs for which a family can claim a HOPE scholarship credit. However, non-taxable federal scholarships and grants, as well as Pell Grants, will not affect HOPE credit limits that a family can claim when filing its annual taxes.

HOPE scholarships will be proportionally phased out for higher-income families, defined as couples earning between $80,000 and $100,000 per year and single income earners making between $50,000 and $70,000 per year. HOPE Scholarships in the substitute are estimated to cost $37.4 billion over five years.

Employer-Provided Education

The substitute permanently extends an income tax exclusion for employer-provided educational assistance and reinstates the exclusion for graduate school study. Current law provides an exclusion for up to $5,250 per year from an employee's taxable income for amounts paid by the employer for education and training, but the exclusion is set to expire after June 30, 1997. The graduate school coverage was removed by the 1996 Small Business and Job Protection Act *(P.L. 104-188)*. This provision is estimated to cost $2.2 billion over five years.

Cost-Free Capital for K-12 Schools

The substitute authorizes local governments to issue bonds for sale, or take out loans, to finance capital improvements or construction of elementary and secondary schools, as well as purchasing equipment, course materials, or teaching training. This financing may only be initiated on behalf of schools which (1) enroll at least 35 percent of attending students from poor families or (2) are located in local empowerment or enterprise zones. Bonds or loans will be provided interest-free under the proposal, and taxpayers who purchase bonds will receive a tax credit equal to the interest payments that local governments would otherwise make on their bond or loan repayments. The amendment limits the amount of bonds eligible for the credit to $10 billion per year for five years.

In addition, the substitute allows schools to join with private businesses in funding partnerships where the businesses make private contributions to schools for capital improvements. This provision is estimated to cost $1.7 billion over five years.

— Family Tax Credit —

Tax Credits for Children of Middle-Income Families

The substitute provides a tax credit, beginning in 1998, to families who earn less than $60,000 per year and have children under age 18. The tax credit will phase in at $300 per child in 1998, 1999, and 2000; it will then increase to $500 for 2001 and subsequent years. The substitute phases out the tax credit over time for families earning between $60,000 and $75,000 per year; the credit is not available for families who earn more than $75,000 annually. This provision is estimated to cost $71.2 billion over five years.

— Capital Gains —

Targeted Relief for Small Businesses, Family Farms, and Real Estate

The substitute allows taxpayers to exclude up to $250,000 ($500,000 for couples who file joint tax returns) of a gain realized when they sell a principal residence where they have lived for at least two of the last five years. The substitute further provides that up to $250,000 lost on the sale of a principal residence may be treated as a deductible capital loss when filing income taxes. Current law considers such losses as non-deductible personal losses. This provision is estimated to cost $1.9 billion over five years.

The substitute allows capital gains taxes on certain assets, up to $600,000 in value for a taxpayer's lifetime, at 18 percent (7.5 percent for taxpayers in the 15 percent regular bracket). This rate does not apply to assets publicly traded on established securities markets, but is targeted at the sales of farms, business assets, and real estate. In order to be taxed at this rate, the assets must have been held by the taxpayer for at least three years. This provision is effective for sales occurring on or after May 7, 1997.

Estate Tax Relief

Family-Owned Businesses. The substitute creates an additional exemption for estates, in which at least 50 percent of the estate includes a family-owned business, on the first $400,000 of the business interest value. Adding that amount to current law provisions, the substitute provision could result in up to $1 million in estate tax relief. The provision is effective January 1, 1998. This provision is estimated to cost $1.9 billion over five years.

Extension of Expiring Provisions. The substitute extends a number of tax credits, estimated to cost a total of $3.1 billion, including:

* the business research tax credit for research conducted and paid for by a business above a certain threshold amount through May 31, 1998;
* a charitable giving tax credit which allows taxpayers to deduct the base cost and any appreciable gain of stock they contribute to private foundations through May 31, 1998;
* the work opportunity tax credit, which allows employers to take a tax credit for 35 percent of the first $6,000 in wages paid to employees from certain target groups, including current and former welfare recipients; and
* the orphan drug tax credit, which provides a 50 percent non-refundable tax credit for qualified testing expenses of drugs for rare diseases and conditions.

Other Provisions

Expansion of Empowerment Zones and Enterprise Zones. The substitute expands the number of empowerment zones from nine to 29 and the number of enterprises communities from 20 to 100. This provision is estimated to cost $1 billion over five years.

"Brownfields" Tax Incentives. The substitute permits the deduction of certain remediation costs if they were incurred in connection with the cleanup of sites contaminated by toxic waste. Sites which qualify are those located in distressed communities that will be able to derive significant economic benefits if the sites are cleaned-up and made available for use. Also, the proposal permits tax-exempt qualified redevelopment bonds to be used to pay environmental remediation expenses for qualified sites. This provision is estimated to cost $1.2 billion over five years.

Tax Credit for Investment in Community Development Financial Institutions (CDFI). The substitute makes available a total of $100 million in non-refundable tax credits to the CDFI fund to be allocated among equity investors in qualified CDFIs between FYs 1997 and 2006. The 1994 Community Development Banking and Financial Institutions Act created the CDFI fund to provide equity investments, grants, loans, and technical assistance to qualifying organizations.

Welfare-to-Work Tax Credit. The substitute creates a new welfare-to-work tax credit for employers who hire long-term recipients of family assistance. The credit is equal to a maximum amount of fifty percent of the first $10,000 of annual wages paid in the first and second years of employment. This provision is estimated to cost $0.3 billion over five years.

Equitable Tolling of Statute of Limitations For Certain Taxpayers. The substitute permits the Internal Revenue Service to "equitably toll" the statute of limitations for certain mentally or physically incapacitated taxpayers who file a claim for a refund. The statute of limitations will be tolled for the period of time during which the taxpayer is medically determined to be mentally or physically unable to manage his or her financial affairs. This provision is estimated to cost $0.1 billion over five years.

Extension and Modification of Puerto Rico Tax Credit. The substitute extends the Puerto Rico tax credit, making it available to newly established business operations and effective for taxable years beginning after December 31, 1997. This provision is estimated to cost $0.7 billion over five years.

Foreign Sales Corporation Benefits For Licensed Software. The substitute modifies the definition of "export property" to include computer software licensed for reproduction abroad for purposes of qualifying for foreign sales corporation benefits. This provision is estimated to cost $0.6 billion over five years.

District of Columbia Tax Incentives. The substitute provides certain tax incentives for the District of Columbia (DC), including (1) a 40 percent wage credit on the first $10,000 of wages paid to DC resident employees who meet certain requirements and (2) expanded tax-exempt development bonds. This provision is estimated to cost $0.3 billion over five years.

In addition, the substitute creates a new DC Economic Development Corporation (EDC) to develop and oversee a comprehensive economic development strategy for the District. The EDC is authorized to allocate $95 million in tax credits to taxpayers that make certain equity investments in, or loans to, businesses in DC. Finally, the proposal clarifies and expands the District's authority to issue general revenue bonds. The EDC must terminate on or before September 10, 2010.

— *Revenue-Increase Provisions* —

The substitute includes a number of provisions to increase revenue by a total of $50 billion, including the following:

Aviation Excise Taxes. The substitute extends the current 10 percent Airport and Airway Trust Fund excise tax on domestic airline tickets for 10 years, through September 30, 2007. In addition, the substitute increases taxes on international arrivals and departures to $10 each.

Miscellaneous Revenue-Increase Provisions. The substitute also:

* permanently reinstates the oil spill liability trust fund tax;
* extends the federal unemployment surtax;
* reinstates a gasoline excise tax for the Leaking Underground Storage Tank (LUST) Trust Fund; and
* imposes a holding period requirement on corporations that claim dividends from foreign tax credits.

Additional Information: See *Legislative Digest* Vol. XXVI, #18, Pt. III, June 24, 1997.

★ ★ ★

Brian Fortune: *Editor*

S. Kevin Washington:
Senior Legislative Analyst

Becci Clark, Melissa Decker,
Jimmy Papadimitriu, Kevin Smith:
Legislative Analysts

House
REPUBLICAN
Conference

Legislative
Digest